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# UNITED DRUG, INC.

## ANNUAL REPORT

December 31, 1940

NRB
CORP. FILE

**MORE THAN 11,000 REXALL, LIGGETT AND OWL DRUG STORES SERVE OVER A MILLION CUSTOMERS A DAY AND STOCK THESE AND OTHER EXCLUSIVE REXALL TRADEMARKS**

Puretest Vitamin Products
Plenamins
Multamins
Puretest High Potency Cod Liver Oil
Puretest Aspirin Tablets
Puretest Rubbing Alcohol Compound
Puretest Mineral Oil
Rexall Gypsy Cream
Bisma-Rex
Denture Adhesive Powder
Rexall Iron, Liver & Bone Marrow
Rexall Milk of Magnesia
Rexall Milk of Magnesia Tablets
Rexall Nasal Spray
Rexall Orderlies
Regs
Rex-Seltzer (Brand) Tablets
Saniped Foot Products
U.D. Pharmaceuticals
G. E. 7 Carbonates Compound
Mi 31 Solution
Cara Nome Toiletries
Adrienne Cosmetics
Klenzo Antiseptic
Klenzo Shaving Cream
Lavender Shaving Cream
Stag Toiletries for Men
Briten Tooth Paste and Powder
Rexall Milk of Magnesia Tooth Paste and Powder
Gales Chocolates
Liggett's Chocolates
Joan Manning Chocolates
$50,000 Chocolate
Symphony Stationery
Lord Baltimore Stationery
Cascade Stationery
Kantleek Rubber Goods
Symbol Rubber Gloves
Maximum Hard Rubber Combs
Swim-Kaps
Firstaid Reel-Roll Cotton
Firstaid Adhesive Plaster, Gauze and Bandage
Klenzo Tooth Brushes

## OFFICERS

| | |
|---|---|
| Louis K. Liggett | *President* |
| Joseph A. Galvin | *Vice-President & Treasurer* |
| William F. Davis, Jr. | *Secretary* |

## DIRECTORS

| | |
|---|---|
| Charles Francis Adams | *Chairman*, Board of Directors, State Street Trust Company, Boston |
| George M. Gales | *Chairman*, Executive Committee, Liggett Drug Co., Inc., New York |
| George C. Haigh | *Vice-President*, Bank of the Manhattan Company, New York |
| Louis K. Liggett | *President*, Boston |
| Thomas H. McInnerney | *President*, National Dairy Products Corporation, New York |
| Warren Motley | Gaston, Snow, Hunt, Rice and Boyd, Boston |
| Charles S. Munson | *President*, U. S. Industrial Alcohol Company, New York<br>*President*, Air Reduction Co., Inc., New York |
| James L. Richards | *Chairman Board of Directors*, Boston Consolidated Gas Company, Boston |
| Fred S. Rogers | *President*, Rogers Drug Stores, Inc., Middletown, New York |
| Eugene W. Stetson | *President*, Guaranty Trust Company of New York, New York |

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### *Transfer Agents*

Guaranty Trust Company of New York, New York
State Street Trust Company, Boston

### *Registrars*

The Chase National Bank of the City of New York, New York
The National Shawmut Bank of Boston, Boston

### *Counsel*

Gaston, Snow, Hunt, Rice and Boyd, Boston
Root, Clark, Buckner and Ballantine, New York

March 1, 1941

*To the Stockholders of United Drug, Inc.:*

The annual report of your company, herewith submitted, presents a consolidated balance sheet, consolidated statement of profit and loss and earned surplus for the year ended December 31, 1940. The assets, liabilities and operating profits of our English and South African companies are not included in the accompanying statements. Our investment in these companies is shown separately on the balance sheet.

## EARNINGS

The consolidated net income of your company and its subsidiaries for the year amounts to $1,103,944.83 or 79¢ per share on the capital stock of your company after providing for depreciation, federal income taxes, bond interest, and loss on guaranteed leases. No deductions were necessary for Excess Profits Taxes. These figures include $88,523.68, expressed in U. S. dollars, of earnings of the Canadian subsidiaries.

The earnings of your companies were charged with taxes amounting to $1,806,710.21 or $1.29 per share. In addition, your companies paid various sales taxes amounting to $930,189.43, a portion of which was recovered in selling prices.

## BALANCE SHEET ITEMS

Earned surplus as of December 31, 1940 amounted to $8,722,474.10 and includes a net credit of $82,888.20 for discount on United Drug Company bonds purchased during the year and reflects a charge of $49,510.47 covering the decrease in dollar value of net current assets of the Canadian subsidiaries due to exchange rates. Working capital amounted to $26,383,094.37 and cash and marketable securities at the end of the year amounted to $8,801,184.02.

## DESCRIPTIVE MATTER IN ANNUAL REPORT

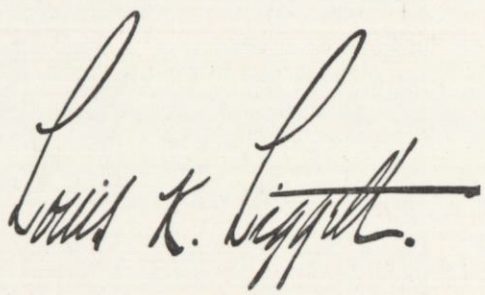
Your attention is directed to the maps appearing on the inside front cover of this report showing the general distribution of the outlets for the merchandise of your companies together with a list of some of the more important trade-marked items. On the inside back cover, you will observe from the photographs therein reproduced, the type of stores through which the merchandise of your companies is sold.

## PERSONNEL CHANGE

Since my annual message to you of a year ago, I have determined to relinquish the executive management of your company to a younger man. On February 5th, 1941, your Directors gave their unanimous approval to my recommendation that Joseph A. Galvin, Vice President and Treasurer, be elected in my place as President at the annual Directors' meeting to be held this month and that I become Chairman of the Board.

Mr. Galvin who is 56 years of age, has had 34 years of meritorious service with your company and its predecessors. His knowledge of your company's affairs and problems is matched by no one and his capacity for executive management has been most favorably demonstrated. It gives me the greatest of pleasure to yield the Presidency of your company to one so splendidly equipped to serve.

Respectfully submitted,



*President.*

# UNITED D

## AND SUBSIDIAR

## CONSOLIDATED BALANCE S

### ASSETS

| | | | |
|---|---|---|---|
| **CURRENT ASSETS:** | | | |
| Cash in banks and on hand | | $ 8,357,442.46 | |
| Marketable securities (*value based on December 31, 1940 market quotations, approximately $490,000*) | | 443,741.56 | |
| Accounts and notes receivable: | | | |
| Customers' accounts and notes | $4,930,788.23 | | |
| Miscellaneous | 277,121.73 | | |
| | $5,207,909.96 | | |
| Less — Reserves for doubtful balances, discounts, etc. | 436,766.76 | 4,771,143.20 | |
| Inventories of merchandise, partly finished stocks, materials and supplies (*at cost or market, whichever lower*) | | 20,188,370.05 | $33,760,697.27 |
| **INVESTMENTS AND ADVANCES, ETC.:** | | | |
| Customers' non-current notes receivable and advances, less reserves | | $ 259,503.07 | |
| Miscellaneous advances, claims and deposits, less reserves (*including $82,222.45 due from employees*) | | 335,246.38 | |
| Investments in and advances to English and South African subsidiaries, wholly owned (*book value of underlying net assets expressed in U.S. dollars, $422,262—per accompanying notes to financial statements*) | | 341,581.63 | |
| Miscellaneous investments, at or below cost, less reserves | | 177,351.69 | 1,113,682.77 |
| **PROPERTY ACCOUNTS** — at cost, written down amounts, or appraisal valuations (*including store fixtures and improvements of retail companies at appraisal valuations determined in 1933, as approved by the directors, plus subsequent additions at cost*): | | | |
| Land, buildings, and building fixtures | | $ 9,506,921.77 | |
| Machinery and equipment, etc. | | 8,519,870.61 | |
| Store fixtures and improvements | | 11,023,597.36 | |
| | | $29,050,389.74 | |
| Less — Reserves for depreciation | | 13,870,006.73 | 15,180,383.01 |
| **PREPAID INSURANCE, TAXES, RENT, ETC., AND ADVERTISING SUPPLIES** | | | 611,644.62 |
| **GOODWILL, TRADE-MARKS, ETC.** | | | 6,300,000.00 |
| | | | $56,966,407.67 |

Information relative to the basis of consoli
of foreign assets, etc. is set forth in the ac

# RUG, INC.

## RY COMPANIES

## HEET—DECEMBER 31, 1940

### LIABILITIES

| | | |
|---|---|---|
| **CURRENT LIABILITIES:** | | |
| Accounts payable, accrued expenses, etc. | $ 6,422,831.70 | |
| Accrued interest on funded debt | 484,852.06 | |
| Reserve for federal and foreign income taxes | 469,919.14 | $ 7,377,602.90 |
| **FUNDED DEBT:** | | |
| Twenty-five year 5% debenture bonds of United Drug Company, due March 15, 1953: | | |
| Authorized and issued, $40,000,000 less $5,250,000 retired | $34,750,000.00 | |
| Less — In treasury, held for retirement (*including $750,000 principal amount available to meet the annual sinking fund payment due March 15, 1941*) | 1,503,000.00 | 33,247,000.00 |
| **RESERVES:** | | |
| Maintenance of store fixtures and improvements | $ 175,716.42 | |
| Contingencies (*increased during 1940 by $50,000 charged to profit and loss and $15,000 transferred from miscellaneous reserves*) | 348,988.95 | |
| Miscellaneous | 32,957.86 | 557,663.23 |
| **CAPITAL STOCK AND SURPLUS:** | | |
| Capital stock: | | |
| Authorized and issued — 1,400,560 shares, par value $5 each | $ 7,002,800.00 | |
| Capital surplus | 588,319.29 | |
| Earned surplus since September 1, 1933 (*representing principally surplus earnings of subsidiary companies since that date which have not been distributed to the parent company, including $775,810.76, expressed in U. S. dollars, of undistributed earnings of the Canadian subsidiaries*) — per accompanying statement | 8,722,474.10 | |
| | $16,313,593.39 | |
| Less — Cost of 48,974 shares of capital stock of United Drug, Inc. acquired and held by subsidiary company for corporate purposes | 529,451.85 | 15,784,141.54 |
| **CONTINGENT LIABILITY:** | | |
| United Drug, Inc. and certain other companies organized in 1933 pursuant to a Plan of Reorganization of Drug Incorporated (*since dissolved*) have agreed to assume liability for obligations which may be lawfully established against Drug Incorporated. | | |
| | | $56,966,407.67 |

dation of foreign subsidiaries, conversion
companying notes to financial statements.

# UNITED DRUG, INC.

## AND SUBSIDIARY COMPANIES

## CONSOLIDATED STATEMENT OF PROFIT AND LOSS AND EARNED SURPLUS FOR THE YEAR ENDING DECEMBER 31, 1940

| | | |
|---|---|---|
| Sales, less returns, allowances and discounts | | $90,298,132.70 |
| Cost of sales, selling, general and administrative expenses (*including depreciation of* $1,277,754.22) | | 86,633,945.28 |
| Profit from operations | | $ 3,664,187.42 |
| Other income: | | |
| Income from investments, including $17,461.55 received from an unconsolidated foreign subsidiary | $ 33,942.38 | |
| Interest on notes receivable, etc. | 49,397.90 | |
| Refunds of federal income taxes for prior years | 12,068.99 | |
| Miscellaneous (net) | 27,433.99 | 122,843.26 |
| | | $ 3,787,030.68 |
| Other charges: | | |
| Interest on funded debt | $1,707,357.09 | |
| Loss from operation of guaranteed leases | 468,230.16 | |
| Provision for miscellaneous investments | 31,360.25 | |
| Provision for contingencies | 50,000.00 | 2,256,947.50 |
| Profit before federal and foreign income taxes | | $ 1,530,083.18 |
| Provision for federal and foreign income taxes | | 426,138.35 |
| Net profit for the year, before deducting unrealized Canadian exchange losses charged to surplus below (*see footnote*) | | $ 1,103,944.83 |
| Consolidated earned surplus, balance December 31, 1939 | | 7,585,151.54 |
| Discount on purchase of bonds of United Drug Company during the year, less $26,200 of federal income taxes applicable thereto | | 82,888.20 |
| | | $ 8,771,984.57 |
| Deduct: | | |
| Unrealized exchange losses for 1940 resulting from conversion of the net assets of the Canadian subsidiaries into U. S. dollars | | 49,510.47 |
| Consolidated earned surplus, balance December 31, 1940, carried to balance sheet | | $ 8,722,474.10 |

*Note:* The net profit for the year includes $88,523.68, expressed in U. S. dollars, of earnings of the Canadian subsidiaries which have not been realized through the distribution of dividends to the domestic parent company.

# UNITED DRUG, INC.
## AND SUBSIDIARY COMPANIES

## NOTES TO FINANCIAL STATEMENTS—DECEMBER 31, 1940

The same basis of consolidation of subsidiaries that was used for the year 1939 has been used in 1940. The accompanying consolidated balance sheet and statement of profit and loss and earned surplus include the accounts of the parent company's domestic and Canadian subsidiaries. The English and South African subsidiaries have been excluded from consolidation, and the investment in these companies is shown in one amount in the consolidated balance sheet.

The following is a condensed statement of foreign assets and liabilities at December 31, 1940, expressed in U. S. dollars, of the Canadian subsidiaries combined and the English and South African subsidiaries combined:

| | Canadian subsidiaries combined (*assets and liabilities included in the consolidated balance sheet*) | English and South African* subsidiaries combined (*carried as an investment in the consolidated balance sheet*) |
|---|---|---|
| Current assets (*including $284,366 of cash and marketable securities of Canadian subsidiaries*) | $1,625,905 | $493,840 |
| Current liabilities | 316,249 | 113,548 |
| Net current assets | $1,309,656 | $380,292 |
| Fixed properties and other assets | 1,107,399 | 41,970 |
| Total (excess of assets over liabilities) | $2,417,055 | $422,262 |

*Pending receipt of audited statements as at December 31, 1940, the figures included for the South African Company are based upon unaudited statements as at November 30, 1940.

In addition to the above, the marketable securities shown in the consolidated balance sheet include $69,983 of English securities held by a domestic subsidiary.

The current assets, current liabilities, investments, etc., and prepaid expenses in foreign countries have been converted into U. S. dollars at quoted official or free rates of exchange at December 31, 1940, whichever lower. Fixed properties have been converted at the average of approximate rates current at the various times these properties were acquired. Earnings of foreign subsidiaries have been converted at average rates of exchange for the year.

Earnings of the English and South African subsidiaries for the year, amounting to approximately $25,000 in U. S. dollars, have not been reflected in the statement of profit and loss, but the statement includes $17,461.55 of dividends received which, for the most part, were declared and paid in foreign currency in 1939, and which were converted into U. S. dollars by the domestic parent company in 1940.

PRICE, WATERHOUSE & CO.

75 FEDERAL STREET
BOSTON

February 26, 1941

To the Board of Directors
of United Drug, Inc.:

We have examined the consolidated balance sheet of United Drug, Inc. and its subsidiary companies as at December 31, 1940 and the consolidated statement of profit and loss and earned surplus for the year then ended, have reviewed the system of internal control and the accounting procedures of the companies and, without making a detailed audit of the transactions, have examined or tested accounting records of the companies and other supporting evidence, by methods, at times, and to the extent we deemed appropriate. Our examination included the verification of the cash in banks by certificates obtained from the depositaries, inspection of the securities, observations and test counts of the inventories during the year and test confirmations of a substantial portion of the receivables by correspondence with the debtors.

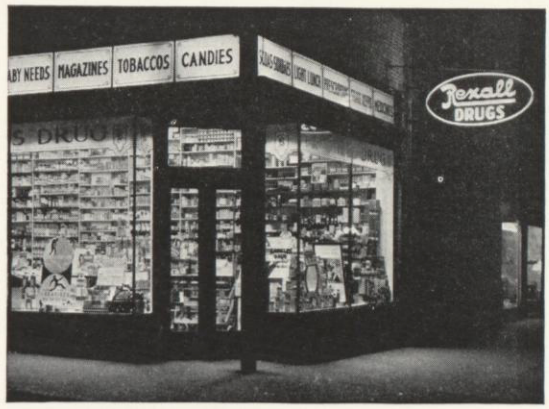
In our opinion, the accompanying consolidated balance sheet and related consolidated statement of profit and loss and earned surplus present fairly the position of United Drug, Inc. and its subsidiary companies at December 31, 1940 and the results of their operations for the year, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

PRICE, WATERHOUSE & CO.

**YOUR COMPANY'S PRODUCTS ARE SOLD ONLY AT STORES IDENTIFIED BY THIS MARK**

## MORE THAN 11,000 OUTLETS FOR Rexall PRODUCTS . . .

9,091 of these are Rexall Drug Stores located in the United States and Canada. The remainder are located in various parts of the United Kingdom and Eire. Quality Rexall Products are sold through these exclusive outlets on a money-back guarantee of satisfaction at prices that save the consumer money.




## 466 ARE LIGGETT DRUG STORES IN THE PRINCIPAL CITIES OF THE UNITED STATES AND CANADA . . .

These Rexall Drug Stores are owned and operated by subsidiaries of your company. Each department of a Liggett Drug Store features Rexall Products that have been tested and approved by the U. D. Department of Research and Technology for quality and effectiveness.

## 132 ARE OWL DRUG STORES SERVING THE WEST COAST WITH YOUR PRODUCTS . . . Owl Drug Stores

are also Rexall Drug Stores and owned and operated by another subsidiary of your Company. They are designed, according to the latest merchandising trends, for making shopping a convenience and a pleasure.